Finance Canada



# News Release



Immediate release



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## FINANCE MINISTER'S UPDATE: DEFICIT BELOW TARGET FOR SECOND STRAIGHT YEAR

Finance Minister Paul Martin today announced that the final deficit for 1995-96 has come in at $28.6 billion, $4.1 billion below target. This marks the second straight year the federal government has bettered its own deficit targets. He said the government is on track to meet or better this year's deficit target of $24.3 billion and to meet the 1997-98 target of $17 billion.

In accordance with the government's policy of setting two-year rolling targets, the Minister set the government's deficit target for 1998-99 at $9 billion or about 1 per cent of GDP. This new target means the government will reach a major milestone along the way to restoring our fiscal health: there will no longer be any need for the federal government to go to financial markets to borrow new money.

The Minister made the announcements when he presented his annual Economic and Fiscal Update to the House of Commons Standing Committee on Finance and tabled concurrently, the Annual Financial Report of the Government of Canada, for fiscal year 1995-96, which has been audited by the Auditor General. The Update is presented to provide basic economic and fiscal information which contributes to the consultations process leading to the 1997 budget.

The $9-billion deficit target for 1998-99 will represent a reduction in the federal government's deficit of almost 80 per cent from the $42 billion deficit in 1993-94. This reduction will have been achieved primarily through spending cuts set in motion by the government's past three budgets. Program spending is projected to fall to 12 per cent of GDP by 1998-99, its lowest level since 1949-50.

The Minister said that short-term interest rates have declined in the past year by more than 4 1/2 percentage points and lower rates have resulted in more jobs and more money in the pockets of Canadians. As well, since last November, Canadian companies have created 220,000 jobs.

The Minister also noted that the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD) and private sector economists all expect growth to pick-up strongly in the second half of 1996 and into 1997. In addition, the IMF recently stated in its *World Economic Outlook* that the Canadian economy will grow faster than any other G-7 country next year.

Mr. Martin said that while it is encouraging that the government is making progress on getting its fiscal house in order, the government also has a responsibility to "...do all that it can to stand by those who are having difficulty adjusting to the changing economy on the one hand and, on the other, ...to ensure that each generation of Canadians is equipped to take advantage of the opportunities it presents."

Other key points in the Update included:

- The 1995-96 deficit of $28.6 billion is almost $9 billion below the deficit for the previous year, 1994-95, representing the largest year-over-year decline in four decades.

- Except for five weeks in early 1994, the Bank rate has not been at its current level (4 per cent) or lower since October 1964. Short-term rates were 2½ percentage points above comparable rates in the U.S. in early 1995--they are now a full 1½ percentage point below. Canadian interest rates are now below U.S. rates for maturities up to five years. In fact, there have been 17 interest rate reductions over the last 17 months.

- On the basis of prudent economic assumptions, the $9 billion deficit target set for 1998-99 can be achieved by continuing the implementation of the measures already outlined in the 1994, 1995 and 1996 budgets.

- The federal government's debt-to-GDP ratio will soon begin to decline, reversing almost 20 years of uninterrupted increases. The $9 billion target for 1998-99 will ensure that the ratio continues on a downward track.

The Minister said that the use of prudent assumptions, contingency reserves and two-year rolling targets has allowed the government to pursue its two-track approach: first, to cut spending; and second, to focus government resources on activities which maximize the nation's potential to create jobs and realize economic growth.

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